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Pensions & Investment Age

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Proxy battles heating up

More chief executives join letter-writing campaign

By Marcia Parker

NEW YORK — The fight for pension fund proxy votes has heated up, with dozens of corporate chief executives writing letters asking their counterparts to use their influence with pension fund managers to support management's positions on shareholder resolutions, especially withdrawal of poison pills.

The letter-writing campaign appears effective: Some investment managers are refusing to support proxy resolutions to repeal management-supported proposals.

Among those who have written such letters are John Georges, chairman, and Paul O'Neill, president, of International Paper Co., and Charles Exley, chairman of NCR Corp.

Among other companies that have sent them are Anheuser-Busch Cos. Inc., St. Louis; American Airlines Inc., Fort Worth, Texas; Colgate-Palmolive Co., New York; and The Louisiana Land and Exploration Co., New Orleans.

The letter-writing campaign seems to have accelerated since shareholders approved the anti-takeover measures that Rockwell International Corp. Chairman Robert Anderson and GTE Corp. Chairman Theodore Brophy lobbied for in letters earlier this year (*Pensions & Investment Age*, March 9).

John Gavin, executive vice president D.F. King & Co., one of the biggest proxy solicitation firms in New York, who originated the GTE, Rockwell and NCR letters, said almost all of the firm's clients are using the letters.

"The letters do have a tendency to lose some of their effectiveness as another piece of paper coming across a CEO's desk. But they are sensitizing management to a problem and creating an awareness," he said.

International Paper's John Georges has sought support in proxy votes.

Don Carter, president of The Carter Organization, New York, a large proxy solicitation firm, said he has sent dozens of letters for clients and is working on at least three.

"These letters are losing their effectiveness and uniqueness," Mr. Carter said. "If you were a CEO and you got 225 personal letters from other CEOs, how effective would it be?"

William Poudrier, vice president at Morrow & Co., another New York proxy solicitation firm, said he is encouraging corporate clients to try the letter route.

Several attorneys and chief financial officers of large corporations also said they have seen or received such letters.

The New York law firm of Skadden, Arps, Slate, Meagher & Flom sent a lengthy memo to clients, laying out a detailed strategy for companies trying to combat shareholder rights plans.

The letters often are tailored to appeal to an individual chief executive officer's past experience with corporate governance issues.

The more recent letters also are more sophisticated than some of the early ones, conveying not only the chief executive's concerns about a given shareholder resolution, but also some suggested actions.

"Your company has a shareholder rights plan, and so you obviously understand the benefits of such plans to shareholders," said one letter sent by Mr. O'Neill of Inter-

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Dennis M. Kass

Kass leaves DOL after 18 months

By Joel Chernoff

WASHINGTON — Dennis M. Kass, head of the Department of Labor's pension unit, will leave the government in mid-May to return to the private sector after nearly 18 months on the job.

In an interview, Mr. Kass said he expects to return to the realm of financial and institutional services, most likely in New York.

Some observers believe the departure of Mr. Kass — who was a key architect of the administration's proposal on the funding of pension plans and serves as "point man" for the administration — may impede the progress of the funding proposal, which is being debated in Congress.

"His departure would come at an extremely critical juncture" in efforts to get passed the administration's funding proposal as well as a variable-rate premium for the Pension Benefit Guaranty Corp., observed Stuart Brahs, executive director of the Association of Private Pension and Welfare Plans, Washington.

But administration officials believe the proposal will not be harmed.

"I'm told that all folks — even ones who disagree with parts of the proposal — want it to be worked out this year," said William Maroni, the Labor Department's deputy undersecretary for congressional affairs.

Mr. Kass' departure, which had been rumored for weeks, came as no surprise, although several observers were disappointed at the news.

"I'm sorry to see him go. I think he's done a very good job over there," said John Erlenborn, former congressman and now partner in the law firm of Seyfarth, Shaw, Fairweather & Geraldson, Washington.

Attention immediately turned to David M. Walker, Mr. Kass' deputy, as the most likely successor, especially given the need for a knowledgeable player in the legislative process and the problems in recruiting personnel for the remainder of the Reagan presidency.

Mr. Walker said the appointment is up to the president and Labor Secre-

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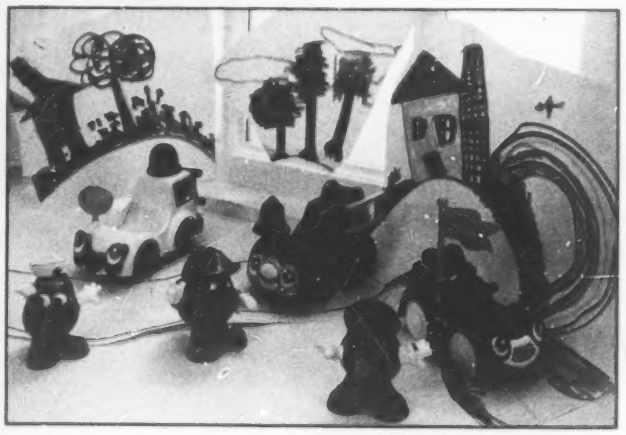

CORPORATE FINANCE: Hasbro Inc. is scoring high in the acquisitions game with names like Playskool and Milton Bradley. And by using cash or cash and stock offerings to finance its moves, the toy company is expanding while its long-term debt is shrinking — page 23.

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Fund invests in CMOs it issued

By Marcia Parker

HARTFORD, Conn. — Acting as both investor and issuer, the $4.8 billion State of Connecticut Trust Funds has issued $252 million in collateralized mortgage obligations in mid-March, selling two of the three classes of bonds and keeping one for itself.

Public pension funds rarely act as both investor and issuer of mortgage-backed securities. Indeed, pension funds rarely issue those securities; they are generally investors only.

Investment bankers believe Connecticut is the first public pension fund to act as investor and issuer since two California funds began doing similar deals last year.

The $37.7 billion California Public Employees' Retirement System sold more than $1 billion in CMOs in four transactions, including a $250 million one last month. In each case, the state pension fund has retained a class of bonds for itself.

"We continue to do them because they are attractive. You can get a better price on the new security and you can reinvest the money in other parts of the securities market," said Walter Williams, principal investment officer for the employees' fund.

The $19.3 billion California State Teachers' Retirement System issued $400 million in CMOs in spring 1986 and did not keep any of the tranches for itself. Proceeds were invested in other investment vehicles.

The teachers' fund will consider doing additional CMOs now that "we've broken the ice," said Monty Lee, fixed-income portfolio manager.

Mortgage-backed security specialists at Salomon Brothers Inc., First Boston Corp., Shearson Lehman Brothers Inc. and Alex. Brown & Sons Inc., which handled the private placement CMO transaction for Connecticut, all said they are talking to other funds about doing similar deals. They declined to name the pension funds.

Investment officers of several public pension funds that invest heavily in mortgage-backed securities said they had considered or were considering the idea.

Officials of at least one fund have rejected the notion, though. Said David Bronner, chief executive officer of the $5.45 billion Retirement Systems of Alabama:

"Funds with heavy cash flows like ours, it just doesn't make sense. Generating more cash flow is nuts to me. Then I have a

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PRIT pumping cash into gas exploration

By Fred Williams

BOSTON — The $2 billion Massachusetts Pension Reserves Investment Trust is making its first oil and gas investment, pumping $7.875 million into a newly formed exploration program in the Texas-Louisiana Gulf Coast region.

It is unusual for a fund's first deal to be concentrated on exploration. Most pension funds invest in the less risky development of proven producing properties.

Sandra Whiston, deputy director-administration for the Pension Reserves Investment Management board, which oversees PRIT's investments, said the fund decided against investment in producing wells "because everyone is interested in producing wells . . . This is more of a long-term play. The returns on existing proven producing wells is probably below what we are going to receive from our investment."

The deal, recommended by the fund's consultant, Wilshire Associates, Santa Monica, Calif., is part of a $45 million private placement with Smith Offshore Exploration Co., Houston.

Harvard Management Co., Cambridge, Mass., through its affiliate Aeneas Venture Corp., also will invest $15 million to $20 million, said Michael Eisenson, partner. Harvard Management, with assets of $3.5 billion, is the investment affiliate of Harvard University.

Smith was formed this year to develop oil and gas reserves in the gulf region in partnership with Brooklyn Union Exploration Co. Inc., New York. Like other deals generating interest from pension investors, the three-year exploration program is aimed primarily at discovering and developing natural gas reserves, rather than crude oil, said Ms. Whiston.

Smith will finance exploration by issuing units, costing $1.125 million, equally consisting of convertible preferred stock and zero-coupon bonds due in 1993. The units will have an effective yield of 12.25%.

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Robin Jacobson's skill at dog-sled racing impressed Steven Leuthold, whose company helped sponsor Mr. Jacobson in the Iditarod.

Leuthold goes to dogs

By Trudy Ring

MINNEAPOLIS — Institutional research strategist Steven Leuthold doesn't mind investing in a few dogs.

His company, The Leuthold Group, helped sponsor a team of canine competitors in Alaska's Iditarod, which he calls "the Super Bowl of sled-dog racing."

The team's driver, Robin Jacobson of Minnetonka, is a friend of Mr. Leuthold's son, Kurt. Mr. Jacobson impressed Mr. Leuthold with a victory last year in a dog-sled race from Duluth to the Canadian border. So when Mr. Jacobson needed sponsors for the Iditarod, The Leuthold Group stepped in.

Mr. Leuthold acknowledges having "a long-time love affair with Alaska." He said the company contributed somewhat less than $10,000 toward Mr. Jacobson's costs.

The firm didn't underwrite the whole effort; an Iditarod entrant's costs typically run around $20,000, including $5,000 to $7,000 for lamb, seal and other hearty meats to feed the dogs.

For his efforts, Mr. Jacobson received $6,000 — $3,000 for finishing 18th in a field of 62 and $3,000 for being "rookie of the year." He finished first among the 18 first-time entrants in the race, Mr. Leuthold said

The race, which began March 7, covers 1,250 miles from Anchorage to Nome, Alaska. "It's a long, drawn-out affair," Mr. Leuthold said.

It typically takes 10 to 12 days for the teams to finish. This year's winner, Susan Butcher, covered the course in 10½ days and received $50,000, Mr. Leuthold said.

Mr. Jacobson finished respectably, in 12 days. He was one of only three entrants from the lower 48 states; there also were some competitors from overseas, but most, like Ms. Butcher, were Alaskans, Mr. Leuthold said.

"I thought it was really neat that a kid from the lower 48 could get into this and do so well," he said.

The Leuthold Group will sponsor Mr. Jacobson again next year. Mr. Leuthold, who recently sold a 50% interest in The Leuthold Group to Weeden & Co., a New York brokerage firm, joked that the sponsorship costs were a major point of the negotiations.

The Leuthold Group didn't take a share of Mr. Jacobson's winnings, but received some publicity and good will.

"He has 'The Leuthold Group' painted all over his truck," Mr. Leuthold said, "but unfortunately, we don't have any clients in Alaska." ■

CSX says pension data not worth mentioning

By Barry B. Burr

RICHMOND, Va. — At CSX Corp., a $663 million pension fund isn't material, at least so far as its financial statements are concerned.

CSX's 1986 annual report makes no mention of the pension assets, liabilities or costs. There isn't even a brief statement referring to pensions.

"I find it incredible," said Howard Hodges, chief accountant for the Securities and Exchange Commission's division of corporate finance.

"It's kind of puzzling," said Larry Brooke, project manager at the Financial Accounting Standards Board, Stamford, Conn.

"It's highly unusual and highly irregular," said Leonard M. Savoie, professor of accounting at the University of Notre Dame, Notre Dame, Ind.

"I think it's wrong. They are violating good reporting standards. I think a $700 million pension fund is material and ought to be disclosed," he added.

According to the controller and external auditor for CSX, a Richmond, Va., transportation and natural resources company, the pension information was omitted because they don't believe it is material.

SEC and other accounting experts said they can't recall a similar void in the annual report of a major company. None of those interviewed had been aware of CSX's omission.

"I'm not familiar with anyone that would leave it out," said Mr. Brooke.

He said FASB 87 states pension sponsors "shall" disclose the data. Even though he conceded FASB 87 is subject to CSX's determination of materiality, he said, "That's not the way we would interpret it."

Bruce G. Lawler, CSX's vice president and controller, said the company deliberately left out any mention of pensions. "It's solely based on the fact it's not a material number," he said.

"Our pension expense is not that significant, so for the last couple of years" the company hasn't had the customary footnote to its annual financial statements, showing pension assets and liabilities.

CSX's 1985 report devoted three sentences to pensions: "CSX and its subsidiaries have pension

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CSX Corp. left its pension data out of its 1986 annual report, claiming the figures were not a material part of the report.

3 executives take new jobs

By Marlene Givant

Three more corporate pension executives have taken new jobs.

Jainel M. Buell, former manager-pension fund analysis at the more than $600 million Air Products & Chemicals Inc. employee benefit plan, Allentown, Pa., has joined the $2.7 billion Xerox Corp. retirement plan, Stamford, Conn., as manager-trust investments.

Michael Schonberg, head of equity investment and a member of the investment policy committee of the more than $11 billion E.I. du Pont de Nemours & Co. pension fund, Wilmington, Del., joined New York-based Chase Investors Management Corp. as managing director-large capitalization equities.

And Richard Cote, manager of banking for Beatrice Cos. Inc., Chicago, has assumed the additional position of director-pension investments for the company's $600 million pension plan, replacing Ingrid Sarapuu.

Mr. Cote said Ms. Sarapuu left the company, but he had no information on her new position.

Xerox hired Ms. Buell to replace Myra Drucker, who left to become director-trust investments of the more than $1.6 billion retirement fund of International Paper Co., New York. (*P&I Age*, Sept. 29.)

Ms. Buell joined Air Products & Chemicals more than seven years

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Michael Schonberg moved from Du Pont to Chase Investors Management Corp.

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Managers still cautious despite market drop

By Frea Williams

Despite the recent stock market decline, equity managers generally say they would continue to invest new client accounts cautiously, viewing the dip as a minor correction, not the beginning of a bear market.

Many investment managers interviewed said the market's drop last week represented volatility; some called it a minor correction with potentially more to come. They said, however, it is a temporary phenomenon.

How quickly a new equity account of $20 million to $50 million would be put to work depends more on the style of the manager than the market's recent moves.

At one extreme is Robert Torray, president and chief investment officer at Robert Torray & Co., Bethesda, Md. Mr. Torray said he wouldn't put any money into the market now, investing instead in cash equivalents, primarily Treasury bills or money market instruments.

"In general, these markets are 'incredibly inflated, and I'm willing to wait for as long as it takes even though there are certain areas in which I may be interested."

As for the recent market decline, Charles Brooks, Torray's vice president, said, "We just don't find too many things we consider values in this market, and a small selloff doesn't produce the kind of values we have seen in the past."

At the other extreme is Bert Dohmen-Ramirez, founder and president of Wellington Financial Inc. and publisher of the Wellington Letter in Honolulu. He would become fully invested within 10 days.

Of the recent market drop, he said, "We expected a sharp decline to last only a few days with the downside target at 2,250 and then to go back up. Basically, what we had was a little 5% correction in two days. That's good for the market."

The approaches of other managers fall between the extremes.

● Prior to the market's decline, Marc Kelly, vice president at Argus Investment Management, Newport Beach, Calif., said he would "work (new money) in very cau-

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N.J. plan continues divesting

By Trudy Ring

TRENTON, N.J. — The New Jersey Division of Investment cut its South Africa-related holdings by more than half in the last six months of 1986.

As of Dec. 31, the division had $1.37 billion in these securities, down from $2.84 billion six months earlier, according to its semiannual divestiture report to the Legislature.

The division has been reducing these holdings since August 1985, when the Legislature passed a law requiring divestiture of all securities in companies operating in South Africa. New Jersey started with $4.2 billion in these securities; the law allowed three years to complete the sales.

Roland M. Machold said the list of securities targeted for divestment by New Jersey may grow.

The latest report reiterated the conclusions of a previous one — the divestiture program has reduced the diversification and quality of equity holdings and produced additional transaction costs (*Pensions & Investment Age*, Nov. 10). However, it also said

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2 funds call for meeting

Royal Dutch's S. African business questioned

By Trudy Ring

Two large tax-exempt funds have called for a special shareholders' meeting concerning Royal Dutch Petroleum Co.'s South African operations.

The $11.7 billion New York City Teachers' Retirement System and the $825 million Ministers and Missionaries Benefit Board of the American Baptist Churches issued the call March 31, apparently the first time shareholders of any company have requested a special meeting on South Africa.

Royal Dutch, based in The Hague, The Netherlands, refused to include on its annual meeting's agenda shareholder resolutions calling for it to leave South Africa. It operates there through a subsidiary, Shell South Africa. The annual meeting is scheduled May 14.

Royal Dutch is not subject to U.S. laws requiring these resolutions to be put to votes at the meeting. However, Netherlands law allows shareholders to force a special meeting to vote on a given topic, if holders of 10% of the shares sign a petition requesting such a meeting, said Gordon Smith, treasurer of the American Baptist benefit board, New York. In the case of Royal Dutch, this amounts to about 27 million shares.

Mr. Smith and Harrison J. Goldin, New York City comptroller and a trustee of the teachers' fund, said their call for the meeting already has pledges of support from holders of 4.8 million shares.

The teachers' fund holds about 162,000 shares, said Steven Matthews, assistant comptroller-public affairs. Other New York City funds, which are supporting the move, hold 496,000 shares, he said.

The American Baptist benefit board holds 40,000 shares, Mr. Smith said.

Other shareholders that have pledged their support are the $19.3 billion California State Teachers' Retirement System, Sacramento; the $1.75 billion Board of Pensions of the Presbyterian Church (U.S.A.), Philadelphia; and several smaller religious organizations, Mr. Matthews said.

Messrs. Goldin and Smith said they are contacting other institutional shareholders.

Royal Dutch Petroleum owns 60% of Shell South Africa; the remainder is owned by Shell Transport & Trading Co. PLC, London.

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New issues rise 29%; Salomon maintains lead

By Marci Baker

NEW YORK — First-quarter 1987 domestic new issues volume climbed 29% from the first quarter 1986, with Salomon Brothers Inc. leading underwriters with 15.1% of the total volume.

According to IDD Information Services Inc., New York, issuers raised $87.7 billion domestically during the first three months of the year compared with $68 billion during the first quarter last year, showing U.S. corporations took advantage of rising stock prices and lower interest rates to raise additional capital.

Of the total, $71.8 billion was in debt issues and $15.9 billion was in equity issues.

Salomon Brothers acted as lead manager on 99 deals totaling $13.3 billion. Although the firm continues to lead competitors in the overall league tables, its dominance has been eroding. Its 15.2% market share was less than one percentage point better than the 14.5% garnered by First Boston Corp., which ranked second as lead manager on 83 deals totaling $12.7 billion.

For the first quarter of 1986, Salomon held 24.3% of total domestic underwriting volume, while runner up First Boston captured 15.7% of the market.

Merrill Lynch Capital Markets placed third in the overall rankings during the first quarter this year, managing $11.2 billion, or 12.8% of the total. Following Merrill Lynch were Goldman, Sachs & Co., with $9.3 billion or 10.6% of the total, Morgan Stanley & Co., with $8.5 billion, 9.7%, and Drexel Burnham Lambert Inc., with $7.1 billion, 8.1%.

Much of the increase in overall domestic volume came in the mortgage-backed securities arena, where 1987's first-quarter volume climbed to $31.1 billion from $10.6 billion in the first quarter of 1986.

The jump in mortgage securities offerings stemmed largely from the popularity of a new type of security — the CMO floater.

The floating-rate securities, which generally represent the shortest-term tranche of otherwise fixed-rate collateralized mortgage obligation transactions, have offered cheaper financing and reduced equity volatility to mortgage-backed issuers and high-quality, more lucrative investments to commercial banks and other floating-rate investors (*Pensions & Investment Age*, Feb. 23).

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Total underwritten offerings*
(Jan. 1 - March 31)

Firm	$ mils.	No. of issues
Salomon Brothers	13,255.4	99
First Boston	12,635.8	83
Merrill Lynch Capital Markets	11,180.9	96
Goldman, Sachs	9,285.4	72
Morgan Stanley	8,457.4	93
Drexel Burnham Lambert	7,139.6	56
Shearson Lehman Brothers	5,934.3	72
Kidder Peabody	4,174.2	41
Bear, Stearns	2,286.7	22
Smith Barney	2,165.5	18

Total debt offerings*
(Jan. 1 - March 31)

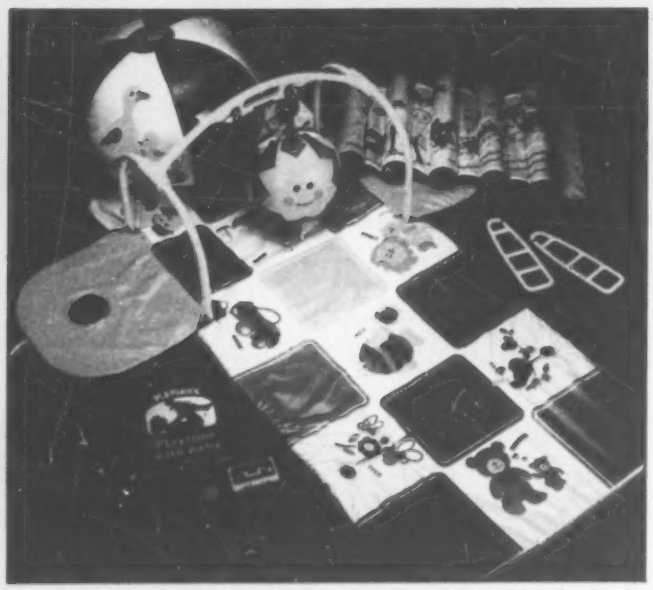
Firm	$ mils.	No. of issues
Salomon Brothers	12,829.4	91
First Boston	11,920.4	73
Merrill Lynch Capital Markets	8,529	70
Morgan Stanley	7,417.2	82
Goldman, Sachs	7,154.5	59
Drexel Burnham Lambert	5,491.6	40
Shearson Lehman Brothers	4,588.2	53
Kidder Peabody	3,601.8	36
Smith Barney	1,779.2	13
Bear, Stearns	1,769.2	16

Total equity offerings*
(Jan. 1 - March 31)

Firm	$ mils.	No. of issues
Merrill Lynch Capital Markets	2,651.9	26
Goldman, Sachs	2,130.9	13
Drexel Burnham Lambert	1,648	16
Shearson Lehman Brothers	1,346	19
Wheat, First Securities	1,100	1
Morgan Stanley	1,040.2	11
First Boston	795.4	11
Kidder Peabody	572.5	5
Bear, Stearns	517.5	6
Oppenheimer	507	4

* Full credit given to lead manager
Source: IDD Information Services Inc., New York

Corporate Finance



Hasbro's 1984 acquisition of Milton Bradley and its Playskool subsidiary boosted the company's prospects for potential sales volume.

Hasbro using cash, stocks to be winner in acquisition game

By Marci Baker

At a time when corporations are piling up debt to restructure through acquisitions, Hasbro Inc. has maintained a clean balance sheet while pursuing the same objective.

Hasbro, based in Pawtucket, R.I., eschewed the debt markets for its acquisitions, relying instead on cash or cash and stock offerings to finance them.

For example, Hasbro acquired the Milton Bradley Co. for half cash and half a combination of common stock and convertible preference stock, which carries more seniority than preferred stock. The company also acquired the Knickerbocker Toy Co. from Warner Communications Inc. for a mixture of cash, stock and warrants that gave Warner a 14% stake in Hasbro with an option to purchase another 5%.

While the company has been expanding, its long-term debt has been shrinking. At $186 million in 1985, Hasbro's debt to total capitalization stood at 44.5%. Last year, that percentage fell to 21.5%, or $125 million, aided in part when the company called $60 million of senior convertible debentures.

Meanwhile, the company continues to be flush with cash, although capital expenditures reduced its cash position in 1986 to $116 million from $185 million.

The company's clean balance sheet should be a plus this year, when toy industry growth isn't expected to be strong.

Also, Hasbro's resistance to the trend toward greater leverage reflects its ability to resist the herd instinct, which it has demonstrated in the toy business.

Hasbro was being called "has been" by competitors and industry analysts when it failed to follow other toy manufacturers into the short-lived video game craze.

"After taking a look at it we decided we didn't want to be in the video game business. We saw no real product differentiation," said Robert Hubbell, vice president-finance.

Instead, the company concentrated on improving traditional products, such as G.I. Joe, and expanding through acquisition.

The result, analysts say, is a much more diversified industry leader in terms of both business and finances.

"This isn't a company that's been an aggressive chaser of fads," said Walter Kirchberger, an analyst at PaineWebber Inc. "A lot of its products aren't trendy," he said. Mr. Potato Head, G.I. Joe and My Little Pony have developed into products which, through updating, have continued to be strong sellers.

Despite such longevity, the company didn't want to rely on individual products so it moved to create greater diversification and balance through acquisition.

Hasbro set out to "diversify our portfolio much like that of a portfolio manager diversifies his investment portfolio," Mr. Hubbell said.

As a result, the company has become an international firm with a broad range of products, including toys, infant care and learning products and games and puzzles.

With the 1983 acquisitions of Glenco Infant Items and Knickerbocker, Hasbro added infant care items such as Tommie Tippie cups, plush products and stuffed dolls to its lines.

The 1984 acquisition of Milton Bradley and its Playskool subsidiary pushed the company into the forefront of the toy business in terms of potential sales volume.

The deal put Hasbro into the resurging games and puzzles arena and provided a ready-made foothold in Europe through Milton Bradley's operations overseas. Playskool, meanwhile, added greater depth to Hasbro's preschool and infant toys and ac-

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New Zealand tapped for debt market deals

By Brad Rudin

Several U.S. corporations in recent weeks have taken advantage of the steepening inverted yield curve in New Zealand by selling short-term New Zealand dollar-denominated debt that offers high yields to investors and reduced borrowing costs to the issuer.

Treasurers at Sara Lee Corp., Chicago; Emerson Electric Co., St. Louis; Dow Chemical Co., Midland, Mich.; Exxon Capital Corp., New York; Merrill Lynch & Co., New York; and other corporations kept investment bankers busy on an arbitrage based on the difference in interest rates in New Zealand and the United States.

The New Zealand government's tight money policy has boosted short-term rates to more than 25%.

U.S. corporations issued $726.8 million (U.S.) in New Zealand dollar-denominated debt during the first 10 weeks of 1987, more than the $518.7 million (U.S.) issued in all of 1986, according to IDD Information Services Inc., New York.

The rich rewards offered to investors explain the growth of the market, said J. Michael Payte, associate director at the interest rate and currency swap department at Bear, Stearns & Co., New York: "Yields are very high; it's that simple." Deals done in recent weeks have offered fixed-rate coupons in a range between 18% and 20%.

Tax planning by individual investors has created an additional appetite for New Zealand dollar-denominated debt issued by U.S. companies, also known as kiwi debt.

"We're coming into the height of the (individual retirement account) season," said Kenneth C. Marshall, a vice president at Prudential-Bache Capital Funding, New York. "That generates a tremendous amount of interest by investors who want to park their funds and get the maximum yield."

The recent upward movement of the New Zealand dollar exchange rate counts as another factor that encourages investor participation in these deals. Depreciation of the New Zealand dollar against the U.S. dollar erodes the returns of U.S. investors holding kiwi securities.

The New Zealand dollar, now worth about 56 cents (U.S.), would have to fall to 49.55 cents to reduce the return of a 19% one-year kiwi debt note to 6%, a break-even point based on short-term domestic rates, according to Andrew Gordon, an international market analyst at First Boston Corp., New York.

Because U.S. investors in kiwi debt trade credit risk for currency risk to get the high yields, the market has demanded issuers hold high credit ratings.

With conditions now right for kiwi deals, U.S. issuers have been eager to take advantage of the savings offered to them by investment bankers who ply these transactions.

"We have been shown these kinds of opportunities for the last 18 months or so . . . but the opportunity was very marginal in our view so we did not take advantage of them," said Howard W. Burdett, assistant treasurer at Dow.

"This was the lowest cost source of U.S. dollars that we had available at the time so we very quickly took advantage," Mr. Burdett said. The company saved between 60 and 65 basis points over alternative two-year financings, Mr. Burdett said. A 65-basis-point saving would reduce Dow's borrowing costs

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Private offers up

By Marci Baker

NEW YORK — Strong demand and a steady supply led to unprecedented volume in private placements last year, with Goldman, Sachs & Co. the leading agent of such deals.

According to IDD Information Services Inc., New York, overall private placement volume totaled $121.7 billion in 1986, up 67% from the $73 billion recorded in 1985.

Part of the volume stemmed from mergers and acquisitions: Merger-related private placements totaled $22.4 billion in 1986, vs. $2.1 billion in 1985.

In addition, activity intensified in the latter part of the year, as issuers used private placements to complete deals quickly before new tax laws took hold.

Institutions, meanwhile, kept demand strong as they sought investments for their hefty cash positions.

While insurance companies continued to be the dominant private placement investors, other foreign and domestic institutions, including public pension funds and endowments, increased their participation. Investment bankers said their stronger appetites have been whetted by the leveraged buy-out boom.

With equal credit going to each manager of a private deal, Goldman managed $18.6 billion in 224 transactions, for a 15.3% share of the market.

Continued on page 24

1986 private placements

15 largest managers*

Overall

Manager	Amount ($ mils.)	Market share %	No. of issues
Goldman, Sachs	18,623.2	15.3	224
Drexel Burnham Lambert	14,740.2	12.1	214
Salomon Brothers	14,560.4	12	323
First Boston	14,180.4	11.7	185
Merrill Lynch	9,411.2	7.7	146
Shearson Lehman Brothers	7,139.4	5.9	207
Citicorp	6,695.8	5.5	159
PaineWebber	5,977.3	4.9	204
Morgan Guaranty	4,402.4	3.6	64
Bankers Trust	4,311	3.5	160
Morgan Stanley	3,539.4	2.9	85
Prudential-Bache	2,765.2	2.3	94
FNB Chicago	2,753.6	2.3	101
Chase	2,548.8	2.1	98
Kidder Peabody	2,446.6	2	112

Traditional debt

Salomon Brothers	7,900	15	101
Goldman, Sachs	7,347.9	13.9	77
First Boston	4,755.9	9	65
Merrill Lynch	4,436.4	8.4	85
Morgan Guaranty	3,352.9	6.4	42
PaineWebber	2,998.2	5.7	107
Bankers Trust	2,823	5.4	106
Citicorp	2,810.6	5.3	52
FNB Chicago	2,548.9	4.8	87
Drexel Burnham Lambert	2,326.2	4.4	30
Shearson Lehman Brothers	1,775.5	3.4	52
Bank of America	1,529.7	2.9	19
Morgan Stanley	1,295.3	2.5	27
Kidder Peabody	1,238	2.3	68
Prudential-Bache	1,221.4	2.3	42

* Equal credit to each manager

Source: IDD Information Services Inc., New York

Debt deals . . .

Continued from page 23

$750,000, he said.

Dow's floating rate $56 million (U.S.) two-year issue, lead managed by Bear, Stearns, is expected to provide a 22.8% coupon based on the recent 90-day New Zealand bank bill rate of 26.2%. The issue was priced at par.

The notes offer a minimum 17% coupon, according to a Bear, Stearns official. Investors who buy the notes will be getting a 16-percentage-point spread over comparable U.S. dollar-denominated securities if the mid-March New Zealand bank bill rate continues.

In the Dow transaction, which involved both a currency and interest rate swap, the company issued two-year floating rate notes to raise $56 million (U.S.). Dow's floating rate notes were based on the 90-day New Zealand bank bill rate less 340 basis points.

However, Dow then swapped the floating New Zealand dollar-denominated coupon payments for fixed-rate U.S. dollar-denominated payments with an intermediary bank.

The fixed-rate payments were set at the two-year U.S. Treasury yield less 15 basis points.

In the currency swap, the bank exchanged payments based on the London interbank offered rate with another New Zealand counterparty for the floating-rate New Zealand dollar-coupon payments.

In the interest rate swap, the intermediary bank exchanged the fixed-rate payments it received from Dow with the interest rate-swap counterparty for six-month U.S. dollar-denominated floating-rate payments based on the London interbank offered rate. The arbitrage is based on the New Zealand counterparty's willingness to pay out a New Zealand floating rate that is higher than the coupon paid by the issuer.

In another kiwi offering lead managed by Bear, Stearns last month, Sara Lee issued 19% New Zealand-dollar notes, priced at par, due March 7, 1988. The face value of the offering was about $56 million (U.S.).

The transaction for Sara Lee created a floating rate liability based on A1-P1 commercial paper that was exchanged for fixed-rate New Zealand funding to match the liability created by the debt issue.

"It was an attractive opportunity and we decided to go ahead on that basis," said Mary Ellen Johnson, Sara Lee's treasurer. She declined to specify how many basis points the company saved by issuing kiwi debt.

Kiwi debt also provided an opportunity for Emerson Electric Co., which issued about $56 million (U.S.) last month. The two-year notes, which were priced at par, carry a coupon of 18.55%.

A currency and interest rate swap gave Emerson the chance to obtain floating-rate funding at a rate that will result in a "significant cost saving over the next couple of years," said Robert M. Cox, treasurer.

The transaction, structured by Prudential-Bache Capital Funding, creates an interest rate swap in which Emerson assumes a floating-rate obligation below standard commercial paper rates in exchange for the 18.55% coupon from Prudential Global Funding, a principal in the swap transaction. That is the coupon needed to pay the bondholders.

"The investor in the U.S. earns a high rate, the counterparty in New Zealand pays a relatively lower rate, and between those two you have an arbitrage and it's Emerson that has the advantage of that arbitrage," said Prudential's Mr. Marshall.

Howard W. Burdett, assistant treasurer, says the low cost of kiwi debt attracted Dow.

Mary Ellen Johnson, Sara Lee treasurer, says kiwi debt was an attractive opportunity.

Other kiwi deals done in March included a transaction for Exxon Capital Corp. The notes, priced at par and carrying an 18% coupon, created a $140 million (U.S.) liability for the company in a transaction lead managed by First Boston Corp.

Merrill Lynch & Co., New York, in a deal managed by Merrill Lynch Capital Markets, sold about $42 million (U.S.) in a one-year debt issue that carried a 20% coupon.

Offers . . .

Continued from page 23

Drexel Burnham Lambert Inc. managed $14.7 billion in 214 deals for a 12.1% share of the overall market, a reflection of its strength in acquisitions and in the placement of securities with public registration rights.

Following Drexel, with a 12% market share, was Salomon Brothers Inc., which managed $14.6 billion in 323 private deals.

First Boston Corp. was fourth, with $14.2 billion or 11.7% of the overall volume, while Merrill Lynch Capital Markets followed with $9.4 billion or 7.7%.

Less traditional private placement transactions — including acquisition-related deals, mortgage-backed transactions and those with rights to register securities publicly down the road — fueled the bulk of the increase in 1986 volume.

Traditional private placement volume remained flat for the year. Some $52.7 billion in straight debt deals was completed in the private market in 1986, compared with $53 billion in 1985.

The intense merger environment made its mark in the market, where $22.4 billion was privately placed with investors. In 1985, IDD reported acquisition-related volume as $2.6 billion.

Deals with registration rights, meanwhile, climbed to $12.4 billion last year, up from $5.9 billion recorded in the previous year.

Drexel managed $6.4 billion in 90 acquisition private transactions for a 28.5% market share.

The firm — clearly the most aggressive in the use of deals with public registration rights — was credited with 94.6% of this category's volume. It completed 165 private transactions with registration rights totaling $11.7 billion.

Goldman completed one such deal totaling $400 million. Goldman was a close second for acquisition-related private placements, managing $6 billion in 18 acquisition-related transactions for 26.4% of that market. First Boston Corp. was third with $3.1 billion or 13.9%.

Fourth and fifth in acquisition-related deals were PaineWebber and Prudential—Bache Securities, which held 7.9% and 6% market shares, respectively.

Volume for lease-related private placements was flat, with IDD recording about $11.5 billion in 1985 and 1986 in that category.

Goldman ranked first, managing $2.4 billion in 38 deals for 20.8% of the market. The firm was followed by Salomon Brothers, with 17% of the market; Merrill Lynch, 12.5%; and First Boston, 8.6%.

Salomon Brothers and First Boston led agents for mortgage-related private placements. Private placement volume in mortgage-related debt totaled $13.3 billion, up from $8.1 billion in 1985.

Salomon, which was credited with $3.3 billion in 157 transactions, was agent on almost 25% of that. First Boston managed $2.5 billion in 24 deals for 18.5% of the total.

Two commercial banks were third and fourth. Citicorp was credited with $2.2 billion and 70 transactions in the mortgage category, giving the firm a 17% slice of that area. Chase Manhattan Bank ended the year with 39 mortgage-related private placements totaling $1.4 billion, or 10.5%.

Commercial banks had a strong showing in the overall and traditional private placement rankings. Five of the top 15 spots in each of the two major categories were held by commercial banks last year.

Citicorp was seventh in the overall private placement rankings, with almost $7 billion in volume. Morgan Guaranty, Bankers Trust, First National Bank of Chicago and Chase Manhattan ranked ninth, 10th, 13th and 14th, respectively.

The showing was even stronger in the rankings of traditional private placements, with Morgan Guaranty fifth, managing $3.3 billion.

Bankers Trust, Citicorp, First of Chicago and Bank of America followed in seventh, eighth, ninth and 12th, respectively. ■

New issues of corporate securities

March 2 — March 13

Issue date	Company	Amount ($ mil.)	Type of security	Offering price Debt (%) Share ($)	Gross spread as % offer price	Where traded (to list)	Managers
Debt							
3/5	Holiday Inns	900.00	Sr. Notes	100.00%	2.750	NY	Drexel Burnham Lambert
3/3	ML Trust X	837.50	GNMA CMO	100.00%	.500	OTC	Merrill Lynch
3/10	Allied Stores Corp.	700.00	Sr. Sub. Deb.	100.00%	3.500	OTC	First Boston
3/13	RJR Nabisco	500.00	S.F. Debs.	98.68%	.887	OTC	Shearson Lehman/Dillon, Read
3/5	Holiday Inns	500.00	Sub. Debs.	100.00%	3.750	NY	Drexel Burnham Lambert/Goldman, Sachs
3/5	Shearson Lehman CMO	300.00	FN-FH CMO	100.00%	.500	OTC	Shearson Lehman
3/5	CMO Trust 22	264.32	FNMA CMO	99.97%	.500	OTC	Salomon Brothers
3/5	Ford Motor Credit Co.	250.00	Notes	99.80%	.351	OTC	Goldman, Sachs
3/5	Commonwealth of Australia	250.00	Bonds	99.25%	.680	OTC	Morgan Stanley/First Boston/Merrill Lynch/Salomon Brothers
3/3	General Electric Co.	250.00	Notes	100.00%	.450	OTC	Kidder, Peabody/Merrill Lynch/Salomon Brothers
Common Stock							
3/5	MFS Multimarket Income Trust	1100.00		$10.00	6.00	IPO	E.F. Hutton/Wheat, First Securities (Books)
3/4	Occidental Petroleum Corp.	1007.00		$30.50	3.28	NY/PC	Drexel Burnham Lambert/Kidder Peabody/Salomon Brothers
3/3	Fruit of the Loom	243.00		$9.00	6.50	IPO (AM)	DBL/MLCM/EFH/DWR*
3/11	Texas Utilities Co.	174.40		$34.88	2.12	NY/MW/PC	Morgan Stanley/Goldman, Sachs/Merrill Lynch/Salomon Brothers
3/4	HealthVest	105.00		$21.00	5.52	AM	SBH/EFH/JOHNSON-LANE**
3/11	Avery International Corp.	100.50		$50.25	1.99	NY	Kidder Peabody/Goldman, Sachs
3/10	The Ohio Mattress Co.	91.30		$18.25	4.49	NY/PC	Lazard Freres & Co.
3/3	Pennwalt Corp.	63.30		$63.25	2.50	NY	Goldman, Sachs
3/10	Outboard Marine Corp.	62.00		$31.00	3.00	NY	Morgan Stanley
3/4	Cypress Semiconductor Corp.	51.70		$11.75	4.43	OTC	Morgan Stanley/Robertson, Colman & Stephens

Source: Securities Data Co., New York

Sr. Sub. Deb.: Senior subordinated debenture
S.F. Debs.: Sinking fund debentures
GNMA CMO: GNMA-backed collateralized mortgage obligation
FN-FH CMO: FNMA/FHLMC-backed collateralized mortgage obligation
**Drexel Burnham Lambert/Merrill Lynch/E.F. Hutton/Dean Witter Reynolds*
***Smith Barney, Harris Upham/E.F. Hutton/Johnson, Lane Space, Smith & Co.*

NY: New York Stock Exchange
OTC: Over the Counter
IPO: Initial Public Offering
AM: American Stock Exchange
MW: Midwest Stock Exchange
PC: Pacific Stock Exchange

New issues volume rises . . .

Continued from page 3

The surge in mortgage-related offerings helped fuel a 28.2% climb in total debt offerings in the first quarter. Issuers raised $71.8 billion in the straight and convertible debt markets in the first quarter of 1987 vs. $56 billion for the comparable period last year.

Salomon garnered the greatest market share, managing $12.8 billion or 17.8% of total debt volume. First Boston ranked second, with $11.9 billion or 16.6%, followed by Merrill, with $8.5 billion or 11.8%; Morgan Stanley, with $7.4 billion or 10.3%; and Goldman, with $7.1 billion or 9.9%.

In the equity arena, first-quarter 1987 volume climbed to $15.9 billion, up 26.2% from the $12.6 billion raised by issuers in the common and preferred stock markets a year ago.

Merrill ranked first in the equity category, as lead manager for almost $2.7 billion or 17% of total equity volume. Placing second was Goldman, which with $2.1 billion or 13.2% of the market. Drexel, meanwhile, placed third with $1.6 billion or 10.1% of total volume. Fourth and fifth places went to Shearson Lehman and Wheat, First Securities of Richmond, Va., which were credited with $1.3 billion and $1.1 billion each in volume representing market shares of 8.2% and 6.9%, respectively.

Drexel's strong placement in the equity rankings comes as the firm has been battling to preserve its credibility in the face of investigations by the Securities and Exchange Commission and the Justice Department into insider trading and ties to Ivan Boesky. Much of its equity volume stemmed from its lead manager role in the $1 billion common stock offering by Occidental Petroleum Corp. last month.

What may be more surprising to some is that Drexel managed to preserve its dominance in junk bonds last quarter, despite efforts by some competitors to capitalize on the scandal and wrest market share from the firm.

Junk bond volume for the quarter totaled $6.8 billion up from $4.4 billion in the first quarter of 1986. Drexel acted as lead manager on half of that. The firm underwrote $2.1 billion in junk bonds during the same period last year for a 47.7% market share.

Coming in second was First Boston, which underwrote its largest high-yield offering to date — the $800 million placement of high-yield debt in connection with Campeau Corp.'s acquisition of Allied Stores Corp. First Boston's total junk-bond volume for the quarter was $1.5 billion for a 22.1% market share.

Merrill Lynch followed with $603 million or 8.9% of the market. Donaldson, Lufkin & Jenrette was fourth, with $320 million or 4.7%, and Morgan Stanley was fifth with $310 million or 4.6%.

Among other first-quarter underwriting highlights were:

- Salomon and First Boston continued to dominate the mortgage-backed securities market, although, as in the overall rankings, their edge appears to be eroding.

The two firms managed $7 billion and $6 billion, respectively, for a combined market share of 41.8%.

During the first quarter last year, Salomon and First Boston managed $3.8 billion and $3.3 billion, respectively, for a combined market share of 67%.

- Straight-debt issuance for the quarter totaled $67.7 billion, up from $53 billion in the first quarter of 1986. Salomon, in first place, managed $12.7 billion. First Boston, in second, underwrote $11.5 billion and Merrill, in third, $8.5 billion.
- Convertible-debt volume rose to $4.1 billion, up from $3.2 billion a year earlier. Smith Barney, Harris Upham led in this category, acting as lead manager on $965 million in deals.
- Issuers raised $11.5 billion in the common stock arena in the first quarter, up from $8.7 billion the previous year. Merrill, acting as lead manager on $2.1 billion, led underwriters in the rankings.
- Preferred stock volume totaled $4.4 billion for the first quarter, up from $3.8 billion. Morgan Stanley grabbed the largest piece of that, managing $660 million. ■

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Late news

PBGC settles suit

WASHINGTON — The Pension Benefit Guaranty Corp. will pay previously denied benefits to thousands of participants and retirees whose plans were amended and terminated between Jan. 1, 1976 and Dec. 31, 1981.

The payments, which could cost the PBGC between $20 million and $35 million, will be made as part of a settlement of a class-action suit against the agency.

Under the settlement, the PBGC will be required to recompute benefits for more than 14,000 participants in plans trusteed by the agency, and review records of some 21,000 plans not under agency control.

Plan participants had charged the PBGC had unlawfully denied them benefit increases stemming from implementing the Employee Retirement Income Security Act's vesting rules, which generally required companies to provide maximum vesting periods of 10 years.

But ERISA also limits PBGC liability for benefit increases during the first five years after a plan is amended.

At Lidz Brothers, a New York garment-industry firm, and Midvale-Heppenstall Co., a Philadelphia steel company, plans for certain employees were terminated less than a year after they were amended to satisfy ERISA's vesting rules. Thus, the PBGC ruled participants were not entitled to guaranteed benefits stemming from the plan amendments.

To settle the litigation, the PBGC has agreed to provide 65% of the additional benefits that would have been guaranteed.

International hire set

CARSON CITY, Nev. — The $2.4 billion Nevada Public Employees' Retirement System has allocated $50 million to Axe Core Investors Inc., New York, its first international manager, said Laura Wallace, investment officer.

The assets will come from a gradual reduction in U.S. equity allocation to 40% of assets from 53%. Accounts of the fund's three largest equity managers — Criterion Investment Management Co., Houston, $258 million; INVESCO Capital Management Inc., Atlanta, $268 million; and Loomis, Sayles & Co. Inc., Boston, $330 million; each will be reduced by $100 million.

Axe was hired for its Morgan Stanley Capital International Europe Australia Far East index fund. Axe, or another international manager, will receive an additional $50 million by next year. The other $200 million is targeted for fixed income.

William M. Mercer-Meidinger-Hansen Inc. assisted in the search.

Legislation hits funds

WASHINGTON — An amendment to an omnibus trade bill designed to increase reporting by foreign investors in U.S. real estate and securities might affect U.S. investors as well.

The amendment to H.R. 3 would require foreign investors to report to the Commerce Department all interests of $10 million or more in U.S. real estate and securities.

It also would require reporting where a foreign investor holds 5% or more of total equity or ownership interests, regardless of the size of the investment.

U.S. investors would be required to file if they are "acting in concert" with foreign investors, such as in a limited partnership that includes one or more foreign investors.

American companies with overseas units or those with joint ventures or partnerships with foreigners also might be affected, according to Keith Martin, a lawyer with Chadbourne & Parke, Washington.

The bill is expected to be sent to the House floor in late April or early May.

Hamilton leaves LTV

DALLAS — Thomas Tull has been named director of employee benefit fund investments at The LTV Corp. and president of Western Reserve Capital Management Inc., replacing Dennis Hamilton.

Mr. Hamilton resigned last month to accept the position of director-pension investments at the $1.1 billion Standard Oil Co. pension fund, Cleveland. He replaces Warren Lory, who was named to the new position of director-finance administration and control.

Mr. Tull joined Western Reserve in 1983 as a portfolio manager and vice president. The firm, a wholly owned subsidiary of LTV, manages about $615 million of the company's $2.4 billion in pension assets and oversees the investment of funds placed with external managers.

Late money movers

- OAKLAND, Calif. — The $525 million Kaiser Aluminum & Chemical Corp. pension plan has hired its first international managers for $7 million each.

They are: Brown Brothers Harriman & Co., New York; J.P. Morgan Investment Management, London; and Baring International Investment Ltd., London.

Assets for the new managers were taken from an equity index fund managed by Wells Fargo Investment Advisors, San Francisco.

Dorn & Helliesen, Larkspur, Calif., assisted in the search.

- SPRINGFIELD, Ohio — The $35 million Wittenberg University Endowment Fund has hired Oppenheimer Capital Corp., New York, as balanced manager for the fund, replacing David L. Babson & Co. Inc., Boston, according to P. Gus Geil, director of business affairs.

Richard A. Schilffarth & Associates Ltd., Milwaukee, assisted in the manager search.

- NEW YORK — The $1.7 billion Rockefeller Foundation has made additional commitments to venture capital and real estate, said Jack Meyer, treasurer and chief investment officer.

The foundation committed $15 million to the International Network Fund, a venture capital fund managed by Advent International Corp., Boston, and $10 million to Copley Institutional Investors Fund, managed by Copley Real Estate Advisors, Boston.

Funding will be from cash reserves. The moves bring the foundation's investments in venture capital and real estate to $41 million and $78 million, respectively.

Russell loses, gains

TACOMA, Wash. — David A. Anderson, chief investment officer of the Frank Russell Trust Co. for five years, has left to join Composite Research & Management Co., Seattle, as a senior vice president and portfolio manager.

Also, Thomas A. Middleton, formerly with Wells Fargo Investment Advisors, San Francisco, has joined Russell as director of client services.

Michael C. Malone, formerly vice president and investment officer of Frank Russell Co., has been named chief investment officer, replacing Mr. Anderson. Mr. Malone primarily will be responsible for working with firms managing Russell's commingled funds.